

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
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R 181617Z MAR 77
FM AMEMBASSY THE HAGUE
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E.O. 11652: N/A
TAGS: EIND, EWWT, ETRD, NL
SUBJ: THE GOVERNMENT INTERVENES TO SAVE DUTCH SHIPBUILDING

REF: 76 THE HAGUE A-80

1. SUMMARY: THE DTUCH GOVERNMENT IS PREPARING TO LAY OUT ONE AND ONE HALF BILLION GUILDERS FROM NOW UNTIL 1981 IN INTEREST SUBSIDIES, LOAN AND CREDIT GUARANTEES AND A NEW FORM OF "LOSS-SHARING" TO HELP THE SHIPBUILDING INDUSTRY SURVIVE. THE OBJECT IS TO SHRINK THE INDUSTRY BY A THIRD OR A HALF, REORGANIZE THE REMAINING YARDS AND CONCENTRATE IN THEM ONEBILLION GUILDERS OF PRIVATE INVESTMENTS. THE MOTIVE IS TO PRESERVE JOBS AND PROTECT THE NATIONS MARI-TIME, TRADE AND NORTH SEA MINING INTERESTS. END SUMMARY.

2. WITH THE APPROVAL OF PARLIAMENT VIRTUALLY ASSURED, THE DUTCH GOVERNMENT IS ABOUT TO EMBARK ON A PROGRAM OF MASSIVE AID TO THE AILING SHIPBUILDING INDUSTRY. FROM NOW UNTIL 1981,
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THE GOVERNMENT IS PREPARED TO SPEND A TOTAL OF ONE AND ONE HALF BILLION GUILDERS (ABOUT \$600 MILLION) IN INTERST SUBSIDIES, LAON AND CREDIT GUARANTEES, AND AN UNPRECEDENTED "SHARING"OF LOSSES TO HELP THE INDUSTRY SURVIVE. THE OBJECTIVES OF THIS EXPENSIVE PROGRAM ARE TO SHRINK THE INDUSTRY BY A THIRD OR A HALF, REORGANIZE THE REMAINDER AND CONCENTRATE IN THE STRONG YARDS THE BILLION GUILDERS

OF PROSTATE INVESTMENT NEEDED TO OVERCOME THE INDUSTRIES ADMITTED SHORTCOMINGS IN EQUIPMENT AND PRODUCTION TECHNIQUES.

3. LIKE OTHER WESTERN EUROPEAN SHIPYARDS, THE DUTCH ARE TROUBLED BY SERIOUS EXCESS CAPACITY RESULTING FROM THE COLLAPSE OF THE WORLD MARKET FOR LARGE TANKERS AND THE DIFFICULTY OF COMPETING WITH THE LOW PRICES OF JAPANESE YARDS. ORDERS ON HAND AT THE BEGINNING OF 1977 AMOUNTED TO 484,200 GROSS REGISTERED TONS (GRT), ONLY ONE FIFTH AS MUCH AS THE RECORD 2.3 MILLION IN 1974. MOREOVER NEW ORDERS IN 1976 CAME TO ONLY 160,000 GRT, A DROP OF TWO THIRDS FROM THE PEAK IN 1974.

4. TO PREVENT POSSIBLE COLLAPSE, AN INDUSTRY FEDERATION CALLED ON THE GOVERNMENT LAST APRIL FOR IMMEDIATE HELP RANGING FROM APPORTIONMENT OF NEW ORDER AMONG YARDS TO A BAN ON CONSTRUCTION OF NEW YARDS AND IMPROVEMENT OF CREDIT GUARANTEES. IN RESPONSE THE GOVERNMENT SET UP A COMMITTEE OF MINISTRY OFFICIALS, TRADE UNION REPRESENTATIVES AND SHIPBUILDERS TO COME UP WITH SOLUTION. THIS JANUARY THE COMMITTEE PRESENTED ITS RECOMMENDATIONS: (1) THAT FROM 1977 THROUGH 1980 THERE BE A 30 PERCENT CUT IN CAPACITY, WHICH WOULD ELIMINATE 6,500 OF THE INDUSTRIES 22,500 JOBS; (2) THAT THIS BE RAISED TO 50 PERCENT IF CONDITIONS DETERIORATE; (3) THAT THE COMPANIES INVEST ONE BILLION GUILDERS TO MODERNIZE AND REORGANIZE; AND (4) THAT THE GOVERNMENT PROVIDE ONE AND ONE HALF BILLION GUILDERS IN EXPORT CREDITS AND SUBSIDIES FOR LOSSES ON THE CONSTRUCTION OF NEW SHIPS

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FOR DUTCH OWNERS. IN ADDITION, THE COMMITTEE RECOMMENDED ENLARGING THE SHARE OF THE INDUSTRY HELD BY THE SPECIALIZED YARDS BELIEVED TO HAVE THE BEST CHANCE OF LONG TERM SURVIVAL, AND CALLED FOR THE FORMATION OF FIVE BASIC GROUPS: ONE CONSISTING OF YARDS FOR LARGE AND VERY LARGE SHIPS AND OFFSHORE INSTALLATION; ONE FOR MEDIUM TO LARGE VESSELS; ONE FOR DREDGING EQUIPMENT; AND TWO FROM SMALL INLAND AND MEDIUM SIZED SHIPS.

5. THE COMMITTEE ARGUED THAT THE CAPACITY CUTS AND RATIONALIZATION WOULD HAVE TO BE HEAVILY UNDERWRITTEN BY THE GOVERNMENT. UNDER THE SCENARIO CALLING FOR A 30 PERCENT CUT IN CAPACITY, THE GOVERNMENT WOULD HAVE TO PROVIDE A

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TOTAL OF ONE AND ONE HALF BILLION GUILDERS, OR AN AVERAGE OF 300 MILLION GUILDERS YEARLY, TO COMPENSATE THE YARDS FOR LOSSES SUFFERED ON NEW SHIPS FROM THE DUTCH MERCHANT FLEET. THE COMMITTEE ASKED THE GOVERNMENT TO BEAR 75 PERCENT OF THE LOSSES UNTIL MID 1978 ON NEW ORDERS FROM DUTCH SHIPOWNERS PROVIDED THE SHIPS ARE MANNED BY THE DUTCH UNDER DUTCH REGISTRY. OF THE GOVERNMENT'S SHARE OF LOSSES, 50 PERCENT WOULD BE DIRECT SUBSIDY AND 50 PERCENT INTEREST FREE LOANS REDEEMABLE THROUGH 1980. IN ADDITION TO GOVERNMENT COVERAGE OF LOSSES ON NEW SHIPS, 50 MILLION GUILDERS WOULD BE NECESSARY TO EXTEND THE GOVERNMENT'S EXPORT CREDIT FACILITIES, AND THE GOVERNMENT WOULD HAVE TO BEAR 15 PERCENT OF THE WELFARE COSTS OF THE MASSIVE LAYOFFS ENTAILED BY THE REORGANIZATION SCHEME.

6. THE ECONOMICS AND SOCIAL AFFAIRS MINISTERS IN A LETTER TO PARLIAMENT DATED JAN 28 APPROVED THE MAIN PROPOSALS CONTAINED IN THE COMMITTEE'S PLAN. IN A SUBSEQUENT STATEMENT ECON MIN LUBBERS REITERATED HIS SUPPORT FOR THE
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PLAN AND STRESSED THE NEED TO BE PREPARED TO ACCEPT AS MUCH AS 50 PERCENT CUT IN CAPACITY IF NECESSARY. THE SECOND CHAMBERS COMMITTEE FOR ECON AFFAIRS MADE CLEAR ITS AGREEMENT THAT THE SHIPBUILDING INDUSTRY SHOULD BE PRESERVED BUT CALLED FOR CLOSE SUPERVISION OF THE GOVERN-

MENTS EXPENDITURES. WE UNDERSTAND THAT SUCH SUPERVISION WILL RST WITH THE CON MINISTRYS DIRECTORATES GENERAL FOR INDUSTRY AND FINANCES WITH THE ADVICE OF THE COMMITTEE THAT FIRST FRAMED THE PROPOSALS. IN ADMINISTERING THE FUNDS, THE MINISTRY AND THE COMMITTEE WILL USE THE FOLLOWING CRITERIA: 1) THA THE ORDER NOT BE TOO EXPENSIVE, 2) THAT OTHER EC COUNTRIES YEARDS NOT BE PLACED AT A DISADVANTAGE AND 3) THAT THERE BE NO SUBSIDY TO A YARD THAT DOES NOT FIT IN WITH THE PROPOSED PLANS TO REDUCE AND REORGANIZE THE INDUSTRY.

7. COMMENT: SOME CRITICS OF THE PROGRAM ARE SKEPTICAL THAT THE NETHERLANDS YARDS WITH OR WITHOUT GOVERNMENT SUPPORT WILL EVER AGAIN BE ABLE TO BUILD SHIPS AT A PROFIT, GIVEN THE EXPECTED GROWTH IN COMPETITION FROM NATIONS WITH LOWER WAGE COSTS AND MORE MODERN YARDS, SUCH AS JAPAN, THEN KOREA, AND EVENTUALLY OTHER NEWCOMERS FROM THE RANKS OF THE THIRD WORLD. THESE SKEPTICS SEE THE GOVERNMENTS PLANNED EXPENDITURES AS A STOP GAP MEASURE CYNICALLY DESIGNED TO WIND DOWN A TRADITIONAL INDUSTRY WITHOUT MAKING THE INTENTION OBVIOUS. CERTAINLY THERE IS SOMETHING TO BE SAID FOR THIS VIEW. NO DUTCH GOVERNMENT TODAY WOULD BE COMFORTABLE ADDING TO THE RANKS OF UNEMPLOYED THE THOUSANDS WHO WOULD BE AFFECTED DIRECTLY BY TOTAL COLLAPSE OF THE INDUSTRY OR THOSE WHO WOULD BE AFFECTED INDIRECTLY (SUCH AS IN THE HEAVY METAL INDUSTRY). BUT THE INSTINCT OF POLITICAL SELF PRESERVATION IS NOT THE REASONS FOR THE GOVERNMENT BAIL OUT. IT IS BELIEVE TO BE WORHT THE CALCULATED RISK OF A BILLION AND A HALF GUILDERS TO MAINTAIN AN INDUSTRY VITAL TO THE NATIONS OCEAN GOING TRADE, IN-LIMITED OFFICIAL USE

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LAND SHIPPING AND EXPLOITATION OF THE MINERAL RESOURCES OF THE DUTHC NORTH SEA.

8. AMERICAN INTERESTS: THERE IS NO SIGNIFICANT DIRECT EFFECT ON AMERICAN STRATEGIC INTERSTS FROM THE DUTCH GOVERNMENTS EFFORT TO SAVE THE NETHERLANDS SHIPBUILDING INDUSTRY. US FIRMS DO NOT HAVE ANY APPRECIABLE, VISIBLE INVESTMENTS IN THE DUTCH YARDS.
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Message Attributes

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